



STATE OF MICHIGAN
EXECUTIVE OFFICE
LANSING

RICK SNYDER
GOVERNOR

BRIAN CALLEY
LT. GOVERNOR

April 22, 2014

Joseph Merucci, City Manager
City of Lincoln Park
1355 Southfield Road
Lincoln Park, Michigan 48146

Lincoln Park City Council
1355 Southfield Road
Lincoln Park, Michigan 48146

Dear City Manager Merucci and Lincoln Park City Councilmembers:

On April 4, 2014, the City of Lincoln Park Financial Review Team submitted its report to my Office. The report concluded, pursuant to Section 5(4)(b) of Public Act 436 of 2012, the Local Financial Stability and Choice Act, that a financial emergency existed within the City of Lincoln Park.

On April 14, 2014, I concurred in the assessment of the Review Team and determined, pursuant to Section 6(1)(b) of the Act, that a financial emergency existed in the City of Lincoln Park. By letter dated April 14, 2014, I notified you of my determination and set forth the findings of fact upon which that determination was based. The letter also provided notice of the City's right to request a hearing upon the determination.

Section 6(2) of the Act requires, in part, as follows:

Following the hearing, or if no hearing is requested following the expiration of the deadline by which a hearing may be requested, the governor, in his or her sole discretion based upon the record, shall either confirm or revoke, in writing, the determination of the existence of a financial emergency. If confirmed, the governor shall provide a written report to the governing body and chief administrative officer of the local government of the findings of fact of the continuing or newly developed conditions or events providing a basis for the confirmation of a financial emergency and a concise and explicit statement of the underlying facts supporting these factual findings.

The deadline by which City officials could have requested a hearing, April 21, 2014, expired without a hearing being requested. Therefore, for the reasons set forth below, I confirm my determination that a financial emergency exists in the City of Lincoln Park.

I again have reviewed in detail the report submitted to me on April 4, 2014, by the Review Team. The Review Team found, or confirmed, the existence of the following conditions based upon information provided by City officials, or the City's audit firm, or other relevant sources:

- According to the City's 2013 fiscal year financial audit, the ending balance in the General Fund decreased from \$2.0 million as of June 30, 2012, to a negative \$89,803 as of June 30, 2013. This \$2.1 million net change in fund balance resulted from General Fund expenditures exceeding General Fund revenues by \$2.3 million, which was slightly offset by a transfer into the General Fund of \$166,666.
- Financial audit reports for the City for fiscal years 2011-2013 reflected notable variances between General Fund revenues and expenditures, as initially budgeted and as amended, versus General Fund revenues and expenditures actually realized. In two of those years, General Fund revenues were overestimated, including by nearly \$1.0 million in fiscal year 2011. Furthermore, in none of the years in question did actual General Fund revenues exceed actual General Fund expenditures. These budget-to-actual variances rendered the adopted budgets and in some instances, the amended budgets, ineffective as a financial management tool.

It also was noteworthy that in all three fiscal years, City officials adopted General Fund budgets in which expenditures exceeded revenues. These were not instances in which a budget was in balance at the time of adoption, but was rendered unbalanced by subsequent events. Rather, these budgets were unbalanced as adopted, which was in manifest violation of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act. Section 16(7) of that Act prohibits a local governing body from adopting a budget "which causes estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus and the proceeds" from certain other obligations.

- City officials indicated the possibility the City would deplete its cash by the end of the current fiscal year. Over the next several months, the City will realize revenue from a delinquent property tax advance from the Wayne County Treasurer's Office for prior year delinquencies as well as from its 2014 summer property tax levy. During this period, various financial obligations also will arise, such as scheduled payroll and pension-funding payments. If the City's cash were depleted, City officials would be unable to satisfy such financial obligations as they legally come due.
- During the City's 2013 fiscal year, City officials defaulted upon an \$82,263 quarterly rental payment owed to a lessor for heating and cooling equipment for certain City owned buildings. As a result of the nonpayment, the lessor filed suit in United States District Court (Eastern District) against the City of Lincoln Park. The lawsuit was settled, but in a manner that imposed a judgment upon the City requiring officials to remit to the lessor \$900,000 per year over the next two fiscal years.

- During the 2013 fiscal year, City officials engaged in expenditures in violation of Sections 17 through 20 of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act.

I remain in agreement with the conclusions of the Review Team report. Furthermore, I note that City officials have not disputed the accuracy of any of the information contained in the report, nor disputed any of its conclusions. Therefore, pursuant to Section 6(2) of the Act, I confirm my determination that a financial emergency exists in the City of Lincoln Park.

Pursuant to Section 7(1) of the Act, the City Council must within seven days of the date of this confirmation adopt a resolution that selects one of the following four statutory options to address the financial emergency:

- (a) The Consent Agreement option pursuant to Section 8 of the Act.
- (b) The Emergency Manager option pursuant to Section 9 of the Act.
- (c) The Neutral Evaluation Process option pursuant to Section 25 of the Act.
- (d) The Chapter 9 Bankruptcy option pursuant to Section 26 of the Act.

The deadline by which the City Council must submit an adopted resolution selecting one of the foregoing statutory options is 5:00 P.M., Tuesday April 29, 2014. The resolution must be submitted to the Michigan Department of Treasury, Office of Legal Affairs, Richard H. Austin Building, First Floor, 430 West Allegan Street, Lansing, MI 48922. The e-mail address is MIStateTreasurer@michigan.gov. Pursuant to Section 7(3) of the Act, if the Board of Trustees fails or refuses to select a statutory option by the deadline, the City will be required to proceed under the Neutral Evaluation Process.

Sincerely,



Rick Snyder
Governor